BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Madison Gas and Electric Company for Authority to Adjust Electric and Natural Gas Rates	Docket No. 3270-UR-125

INITIAL BRIEF OF APPLICANT MADISON GAS AND ELECTRIC COMPANY

INTRODUCTION

Madison Gas and Electric Company (MGE or the Company) requests a minor increase in its electric and natural gas rates for Test Years 2024 and 2025 in this proceeding. Indeed, after accepting the vast majority of changes made by Public Service Commission of Wisconsin (Commission) staff in its financial audit, MGE's proposed increase for electric rates in Test Year 2024, subject to standard updates in the 2024 fuel cost plan, is 1.54%, and its proposed increase for natural gas rates in Test Year 2024 is 2.27%. For Test Year 2025, MGE's proposed increase for electric rates, subject to Commission approval of the 2025 fuel cost plan, is 1.89%, and its proposed increase for natural gas rates is 1.26%. MGE understands the impact of even a minor rate increase on its customers and takes steps to mitigate any increase.

As described in more detail below, MGE is requesting to incorporate payroll updates for represented employees and force majeure and plant in-service date updates for three solar farm projects: Badger Hollow II Solar Farm (Badger Hollow II), the Paris Solar Farm with Battery Storage (Paris), and the Darien Solar Generating and Battery Energy Storage System (Darien). The impact of these adjustments would be an increase in Test Year 2024 for electric rates of 0.07% (total increase of 1.61%) and for natural gas rates of 0.18% (2.45%). For Test Year 2025, there would be an increase of 1.08% (2.97%) for electric rates and an increase of 0.23% (1.49%) for natural gas rates.[1]

Moreover, in this proceeding, MGE also seeks approval of several tariff proposals. The proposal garnering the most attention from intervening parties relates to net-metering. MGE is **not** proposing to eliminate net-metering. MGE believes that customer-owned and customer-sited solar are important pieces to achieving the community's carbon reduction goals, but that must be done at a reasonable cost for all customers. MGE also agrees that energy affordability is important, and the Company's proposals both encourage customer-owned and customer-sited solar as well as help balance the costs to all customers.

With its net-metering proposal, MGE has balanced the interests of existing customers who have solar arrays, customers who may be considering the installation of solar arrays in the near future, and customers who do not, and will not, have solar arrays. Notwithstanding issues raised by some intervening parties, who are primarily concerned about the business interests of contractors installing solar arrays as opposed to all of MGE's customers, the Commission should approve MGE's tariff changes related to net-metering and its other tariff proposals.

MGE respectfully requests that the Commission approve the Company's application for authority to change its electric and natural gas rates.

ARGUMENT

I. MGE MAINTAINS THAT ITS FINANCIAL PROPOSALS ARE REASONABLE AND SHOULD BE APPROVED BY THE COMMISSION.

MGE appreciates the work performed by Commission staff on its financial audit, and the Company has accepted the vast majority of adjustments made by Commission staff. There

[1] Prior to filing this initial brief, MGE filed a Request to File Additional Evidence (PSC REF # 480608), Ex.-MGE-Rhone-6 (PSC REF # 480609), Ex.-MGE-Rhone-7c (PSC REF # 480611), and Ex.-MGE-Rhone-7p (PSC REF # 480612).

remain, however, a few outstanding issues. MGE maintains that its proposals are reasonable and should be approved by the Commission.

A. *MGE continues to implement cost-containment measures to help limit any rate increase.*

MGE understands that any rate increase impacts its customers. To help mitigate any cost increases, the Company has implemented cost-containment measures, as described by MGE witness Stacy A. Rhone, Director Budgets. The cost-containment measures include, but are not limited to:

- MGE required management to scrutinize its budgets to ensure they were at the lowest possible level while still providing safe and reliable energy to customers and complying with governmental requirements. The Budget Department also meets with all areas every other week to discuss cost-containment opportunities.

- The Company's CEO continues to review each open position with the goal of filling only critical positions (those necessary for safety, reliability, or compliance).

(Direct-MGE-Rhone-r-7.)

Notwithstanding these cost-containment measures, the Company must still seek a minor increase in its electric rates for Test Years 2024 and 2025. Drivers of the rate increase include changes in pension and other post-retirement costs, increases in American Transmission Company (ATC) network service charges, and costs related to renewable projects, such as the Badger Hollow II, Paris, and Darien solar projects. (Direct-MGE-Rhone-r-4-7.) MGE's proposed increase in natural gas rates is primarily due to an increase in rate base associated with infrastructure improvements designed to enhance reliability and safety, and grid modernization. (Direct-MGE-Rhone-r-5-7.)

B. *MGE's proposals on remaining revenue requirement issues are reasonable and should be approved.*

(1) Payroll adjustments for represented and non-represented employees.

Commission staff's financial audit addressed both the Company's non-represented and represented employees. MGE agrees with the audit adjustments for its non-represented employees. (Rebuttal-MGE-Rhone-2-p.)

For its represented employees, in 2023, MGE is participating in collective bargaining with the International Brotherhood of Electrical Workers (IBEW), the United Steel Workers (USW), and the Office and Professional Employees International Union (OPEIU).

- MGE and the IBEW reached an agreement that was signed on August 30, 2023. The agreement increases the Company's revenue requirements in Test Years 2024 and 2025. The increases include wage increases, benefits, and taxes. MGE requests that its agreement with IBEW be incorporated into the revenue requirement for Test Years 2024 and 2025. (Rebuttal-MGE-Rhone-2-3-p.) Commission staff agrees that based on past practice, it would be reasonable for the Commission to include these costs in the revenue requirements. (Surrebuttal-PSC-Griffin-2.)

- MGE's negotiations with OPEIU are on-going, and its negotiations with USW are scheduled to start in October. MGE continues to request that "updated estimates be included in the revenue requirements for Test Years 2024 and 2025 based on agreements with unions reached prior to the Commission decision in this proceeding." (Rebuttal-MGE-Rhone-3-p.) Commission staff agrees that if the agreements are executed before the Commission issues its decision in this proceeding, the Commission could include the impacts of the executed agreements in the revenue requirements. (Surrebuttal-PSC-Griffin-2.)

(2) <u>The Commission should approve recovery of costs associated with the COVID-19 deferral</u>.

Consistent with past Commission practice, MGE maintains that it should receive recovery of the costs associated with the COVID-19 deferral. In the Commission's Final Decisions in Docket 6680-UR-123, Wisconsin Power and Light (WPL) was able to collect COVID-19 costs via escrow accounting treatment for test years 2022 and 2023. (*See* PSC REF #s 427760 and 455045.) MGE is simply requesting the same treatment as that provided for WPL. (Rebuttal-MGE-Rhone-5-p.)

MGE notes that the $11,208,093 for COVID-19 deferral costs reflects a four-year period from 2020 to 2023. In its Final Decision in Docket 3270-UR-124, the Commission found it reasonable to defer the COVID-19 costs to MGE's next full rate case proceeding. (*See* PSC REF # 427687.) This proceeding is MGE's next full rate case proceeding, and denial of recovery of the COVID-19 deferral by the Commission would have a significant negative financial impact on MGE. Contrary to the assertions made by the Citizens Utility Board, Direct-CUB-Singletary-r-43, "Generally Accepted Accounting Principles would require MGE to immediately write these costs off." (Rebuttal-MGE-Rhone-5-6-p.)

(3) <u>The force majeure costs and updated in-service dates associated with Badger Hollow II, Paris, and Darien should be included in the revenue requirements for Test Years 2024 and 2025</u>.

In Docket 5-BS-234, Docket 5-BS-254, and Docket 5-BS-255, respectively, the Commission approved the Badger Hollow II project, the Paris project, and the Darien project, including MGE's ownership interests in the projects. (*See* PSC REF #s 385279, 438529, and 458394.) The Final Decisions contain order points stating that the Commission, consistent with past practice, shall review in rate case proceedings the recoverability of costs associated with the projects, including force majeure costs, if any, so long as notice of force majeure costs is timely provided.

The following notices of force majeure costs have been filed in Docket 5-BS-234, Docket 5-BS-254, and Docket 5-BS-255:

- In Badger Hollow II, notice of a force majeure change order in schedule was provided on September 5, 2023. (Rebuttal-MGE-Rhone-4-p; Ex.-MGE-Rhone-3cr; Ex.-MGE-Rhone-3pr; *also see* PSC REF #s 477798, 477799, and 477811.)

- In Paris, notices of a force majeure change order were provided on August 4, 2023 (*See* PSC REF #s 474608, 474609) and September 5, 2023 (*See* PSC REF #s 477788, 477789). (Rebuttal-MGE-Rhone-4-p; Ex.-MGE-Rhone-3cr; Ex.-MGE-Rhone-3pr.)

- In Darien, notices of a force majeure change order were provided on September 27, 2023 (*See* PSC REF #s 480558, 480559, 480560, 480561, and 480562). (Ex.-MGE-Rhone-7c; Ex.-MGE-Rhone-7p.)

In addition to the force majeure costs, the anticipated in-service dates for the projects have been updated pursuant to the Commission staff audit. The revenue requirement impact of the force majeure costs and the in-service date changes for Badger Hollow II, Paris, and Darien are approximately a decrease of $302,000 in Test Year 2024, and an increase of $4,267,000 in Test Year 2025. (Ex.-MGE-Rhone-4; Ex.-MGE-Rhone-6.) The revenue requirement impacts include the return of and on, operation and maintenance costs, and tax credit impacts. MGE requests that the revenue requirement impacts of the force majeure costs and the in-service date changes for Badger Hollow II, Paris, and Darien be approved by the Commission. Notably, Commission staff does not disagree with MGE's proposal related to Badger Hollow II and Paris (Darien documents were filed after testimony and party hearing in this proceeding). (Surrebuttal-PSC-Griffin-2-5.)

(4) <u>MGE requests deferral treatment of non-monitored fuel costs that are related to evolving rules issued by governing bodies that are outside of the Company's control</u>.

As part of its application in this proceeding, MGE has asked to defer non-monitored fuel costs if the costs relate to evolving rules issued by governing bodies that are outside of the Company's control. Specifically, MGE witness Scott R. Smith testified:

> Currently, there is uncertainty pertaining to items such as generation capacity accreditation due to evolving rules by governing bodies such as the Federal Energy Regulatory Commission and the Midcontinent Independent System Operator. This uncertainty could impact the company costs if, for example, changes require additional capacity to be procured for compliance.

(Direct-MGE-S. Smith-5.)[2]

MGE witness Martin Smith noted that there are ongoing changes being made to the Midcontinent Independent System Operator (MISO) resource adequacy construct and Planning Resource Auction (PRA), which changes are outside of MGE's control. Due to the uncertainty in the changes being made, MGE cannot estimate the potential cost impact on non-monitored fuel costs, including any purchased power agreement (PPA) for capacity costs, which is why MGE is requesting deferral treatment. (Rebuttal-MGE-M. Smith-5-6; Ex.-MGE-Smith-2.) By way of example, and as further explained by Mr. Martin Smith in response to a discovery request:

- "MISO's annual resource adequacy construct and Planning Resource Auction ("PRA") has utilized a UCAP (unforced capacity) methodology for the last several Planning Years ("PYs"). Simplistically, the UCAP metric was meant to capture the dependable capability of a unit on average throughout the year. The UCAP calculation was based on an annual performance test and then derated by a forced outage rate.

  For the 2023-2024 Planning Year (PY), MISO moved away from the UCAP metric toward a Seasonal Accredited Capacity (SAC) value. The SAC methodology maintains total MISO portfolio UCAP, but individual resource accredited capacity is awarded based on availability during the highest risk hours as determined by MISO after-the-fact. This leads to a scaling or re-weighting of capacity resources. In addition, the high-risk hours are not known ahead of time and can shift over time based on the future resource mix. *This leads to uncertainty in the accredited capacity of resources to meet MISO's PRMR in the annual PRA*."

- "MISO may also be making changes to the seasonal PRMR values but has not yet provided final information to stakeholders on how these values may change. *This creates additional uncertainty in the amount of accredited capacity resources that MGE must secure to meet the PRMR in MISO's annual PRA*."

- "MISO continues to examine and reevaluate how resources are accredited for providing capacity and the level of Planning Reserve Margin Requirement that they feel is necessary by season in the Planning Resource Auction. It is possible that

[2] Two of MGE's witnesses have the last name of Smith: Scott R. Smith and Martin Smith. For purposes of this brief, MGE will site to Direct-MGE-S. Smith and Rebuttal-MGE-M. Smith. Any references to exhibits will be to Martin Smith, as Scott R. Smith did not sponsor any exhibits in this proceeding.

> MISO may make additional changes to the accreditation of other types of resources, such as Load Modifying Resources (LMR) and storage devices. *This uncertainty introduces considerable variability in non-monitored purchase power Capacity (PPA Capacity) necessitating the requested opportunity to defer non-monitored fuel costs*."

(Ex.-MGE-Smith-2 (emphasis added).)

Commission staff acknowledged that MGE's deferral request may be appropriate because "the request for deferral treatment is limited to costs associated with any volatility around the establishment of resource adequacy and capacity requirements from either MISO or FERC." (Surrebuttal-PSC-Ritsema-2.) MGE requests that the Commission issue an order point in its final decision in this proceeding that allows deferral treatment of non-monitored fuel costs that are related to evolving rules issued by MISO, FERC, or other governing bodies and which rules are outside of the Company's control.

(5) MGE's position on the West Riverside 2 Option.

Consistent with past practice, MGE requests deferral accounting treatment of the West Riverside Option 2 costs, as adjusted by the Commission staff audit. (Rebuttal-MGE-Rhone-3-p; Direct-PSC-Griffin-r-9-10.) If deferral accounting is approved for a future rate proceeding, MGE supports using the economic cost of capital for carrying cost calculation. If the Commission approves the sale and purchase of ownership interests in the West Riverside Option 2 proceeding before its final decision in this proceeding, MGE requests that the West Riverside Option 2 costs be reinserted into the final revenue requirement for this proceeding. This would be consistent with how the Commission handled the West Riverside Option 1 in its Final Decision on Reopening (PSC REF # 454855) issued in Docket 3270-UR-124. (Rebuttal-MGE-Rhone-3-p.)

C. *MGE and Commission Staff agree on maintaining the 55.00% level of equity on a financial capital structure basis.*

MGE proposes to maintain the capital structure of 55.00% level of equity on a financial capital structure basis that was approved by the Commission in 2022 and maintained by the Commission in the limited reopener proceeding in 2022. (Direct-MGE-Schmudlach-r-2.) Commission staff agrees and does not propose any adjustments to MGE's financial capital structure, long-term equity range, or target equity level. (Direct-PSC-Tierney-4-5.)

As stated by MGE witness Jered R. Schmudlach:

> MGE's 56.12% level of equity for Test Year 2024 and 56.05% level of equity for Test Year 2025 on a regulatory capital structure basis equates to a 55.00% level of equity on a financial capital structure basis, which the Commission determined to be an appropriate target level in its 2021 decision (Final Decision, PSC REF # 427687) and was maintained in its 2022 decision (Final Decision, PSC REF # 454855) in Docket 3270-UR-124. *This is within the Commission's long-term equity range on a financial capital structure basis of 55% to 60%, authorized by the Commission in its 2021 decision and maintained in its 2022 decision.*

(Direct-MGE-Schmudlach-r-7 (emphasis added).)

Moreover, MGE asserts that allowing the Company to maintain the capital structure of 55.00% level of equity on a financial capital structure basis benefits its customers. As stated by Mr. Schmudlach:

> A 55.00% level of equity shows regulatory support for MGE's financial metrics, which assists MGE in obtaining a credit rating that benefits its customers. To repeat a statement from above:
>
> > *The Commission's long-standing policy of supporting MGE's commitment to credit quality for the benefit of both its customers and its shareholders has been recognized by the credit rating agencies and the financial markets.* MGE's 55 percent test-year average common equity as measured on a financial capital structure basis is the cornerstone to this policy and remains reasonable.
>
> *Key benefits that customers realize from MGE having a high credit rating include lower cost of debt, increased access to credit markets, and lower credit-related fees.* MGE is a small issuer in the long-term debt capital markets, which leads to increased spreads required by long-term debt investors to buy MGE's debt securities. *A robust credit*

rating, supported by a 55.00% level of equity on a financial capital structure basis, helps MGE mitigate the small issue premium, reducing the cost of debt for MGE customers.

Periods of elevated volatility can make it difficult for lower credit quality entities to access capital markets. Recent events that have caused volatility in capital markets to rise, like the COVID-19 pandemic and more recently the regional bank failures, cause investors to require increased returns to compensate investors for the risk they are incurring. In periods of extreme volatility, investors may not be willing to invest in lower credit quality entities. MGE's credit rating, supported by a 55.00% level of equity in its financial capital structure, has allowed MGE access to the credit markets when needed due to its high credit quality, even in times of elevated volatility.

(Direct-MGE-Schmudlach-r-6 (emphasis added).)

D. *The Commission should approve MGE's proposal to maintain its current authorized return on equity (ROE) of 9.8%.*

MGE witness Michael Bates provides a thorough analysis supporting the Company's request to maintain its current authorized ROE of 9.8%. Indeed, Mr. Bates' analysis demonstrates that an appropriate ROE range for MGE is 9.8% to 10.8%. As summarized by Mr. Bates, "MGE's proposed ROE of 9.8% aligns with the current authorized ROE, is notably below the center of the reasonable ROE range, and represents a reasonable rate of return that reflects MGE's risk profile while also maintaining MGE's credit metrics and financial strength and customer affordability." (Direct-MGE-Bates-5.)

Mr. Bates considered the following factors when evaluating an appropriate ROE for the Company:

- Several quantitative models, including Capital Asset Pricing Model (CAPM) and Empirical Capital Asset Pricing Model (ECAPM), Discounted Cash Flow (DCF), Bond Yield Plus Risk Premium, and Comparable Earnings. (Direct-MGE-Bates-2.)

- MGE's business risk related to its size, customer concentration, and capital expenditure requirements. (*Id.*) Mr. Bates evaluated "MGE's business, regulatory, operational, and other financial risks relative to a selected proxy group of comparable publicly traded utility companies with similar business profiles and fundamental risk and return characteristics and the implications of those risks in determining an appropriate ROE recommendation." (Direct-MGE-Bates-4.)

- "Current and forecasted interest rates, the overall state of the economy, and the expected investment risk associated with holding MGE's securities during the test-year period." (Direct-MGE-Bates-3.) This included considering, "The effect of current and projected capital market conditions on investors' return requirements." (*Id.*)

- The standards for determining a fair and reasonable ROE as set forth in United States Supreme Court decisions Hope and Bluefield. (*Id.*)

Mr. Bates evaluated multiple methodologies because the measurement of cost of equity and investors' required rate of return on equity are imprecise calculations. "As such, utilization of multiple methods as well as an understanding of the relevant model assumptions, in combination with a qualitative assessment of the capital market and MGE's business characteristics, provide a more comprehensive evaluation of the required cost of common equity capital." (Direct-MGE-Bates-4.) As noted above, Mr. Bates' analysis demonstrates that an appropriate ROE range for MGE is 9.8% to 10.8%. "The significant need for capital investment related to upgrading MGE's distribution infrastructure and transitioning its electric generation fleet underscores the importance of maintaining access to the capital markets at reasonable cost going forward and supports an ROE in the upper half of the range." (Id.) Notwithstanding the fact that certain factors support increasing the ROE, MGE's proposal is to maintain the current Commission-authorized ROE of 9.8%.

Commission staff witness Reed Tierney generally agrees with MGE, as staff proposes a 9.7% ROE with its testimony. (Direct-PSC-Tierney-2.) However, the 10 basis point reduction proposed by Commission staff should not be accepted, as it "is inconsistent with changes in market conditions which have driven increases in the cost of capital since MGE's last rate case," including "the rising interest rate environment, inflationary pressures, and capital spending levels associated with achieving decarbonization goals." (Rebuttal-MGE-Bates-r-2-3.) As further explained by Mr. Bates:

> Mr. Tierney's conclusion in this proceeding that the investor-required return on equity has declined and recommendation that MGE's ROE be reduced is inconsistent with his acknowledgement in testimony and Ex.-PSC-Tierney-1 that interest rates have been rising since 2021.
>
> The Federal Reserve has raised the Federal Funds rate 500 basis points since MGE was authorized a 9.80% ROE in November 2016 and 525 basis points since MGE's most recent rate case concluded in December 2021. At that time, the upper limit of the Fed Funds target range was 0.25%, which equates to a spread of 955 basis points between the target upper limit of the Fed Funds rate and MGE's authorized ROE. MGE's proposal in this proceeding to maintain the current authorized ROE in the interest of protecting customer affordability equates to a 430 basis point spread between authorized ROE and the current upper limit of the Fed Funds rate target of 5.50%. The Federal Reserve is expected to implement further increases going forward to combat inflation, depending on evolving data and its outlook for the economy. It is unreasonable for Mr. Tierney to acknowledge the increases in interest rates and the effect on the cost of capital, yet recommend a decrease in the ROE given that the long-term positive correlation between authorized utility ROEs and interest rates.

(Rebuttal-Bates-MGE-r-3.)

Moreover, Mr. Tierney's proposal to reduce the ROE to 9.7% is inconsistent with recent ROEs authorized for vertically integrated electric and natural gas utilities as acknowledged by Mr. Tierney. (Direct-PSC-Tierney-14.) Mr. Tierney testified, "For the June 2022 through June 2023 period, the average authorized return for vertically-integrated electric and natural gas utilities were 10.22 percent and 10.54 percent, respectively." (*Id*.)

For the foregoing reasons, and based on the thorough analysis performed by Mr. Bates, MGE asks the Commission to maintain the Company's current authorized ROE of 9.8%.

II. MGE REQUESTS THAT THE COMMISSION APPROVE THE COMPANY'S MONITORED FUEL COST PLAN FOR 2024.

MGE filed its proposed monitored fuel cost plan for 2024 as part of its Application in this proceeding. MGE and Commission staff agree on the monitored fuel cost plan for 2024, including the adjustments made by Commission staff and the future updates to the plan.

Following the typical practice, Commission staff made certain adjustments to the monitored fuel cost plan for 2023 filed by the Company. (Direct-PSC-Ritsema; Ex.-PSC-Ritsema-1.) As noted by MGE witness Carl J. Weinert, MGE agrees with the adjustments to the monitored fuel cost plan for 2024 identified by Commission staff witness Michael A. Ritsema in his direct testimony and in Ex.-MGE-Ritsema-1. (Rebuttal-MGE-Weinert-1.)

MGE and Commission staff also agree that the standard updates will be made to the fuel cost plan, including an update related to ATC transmission costs expected to be received on or about October 1, 2023 and an update to the actual performance of the railroad delivery of coal to the Columbia Energy Center. (Surrebuttal-PSC-Ritsema-1-3; Rebuttal-MGE-Rhone-6-p; Rebuttal-MGE-Weinert-2.)

III. MGE AGREES THAT ENSURING SERVICE IS AFFORDABLE TO ALL CUSTOMERS IS A TOP PRIORITY.

In this proceeding, intervening parties including Blacks for Political and Social Action of Dane County, Inc. (BPSA) and 350 Wisconsin, Inc. (350 Wisconsin) were critical of MGE's collection practices and efforts to engage and assist low-income and other vulnerable customers with their energy burden. MGE disagrees with the criticism levied against it, as the criticism ignores critical facts. MGE, however, "agrees that ensuring that electric and natural gas service is affordable to its customers is a top priority." (Rebuttal-MGE-Forer-2.)

MGE witnesses Mario Garcia Sierra and Josh Forer described in detail the efforts made by the Company to engage and assist low-income and other vulnerable customers. As stated by Mr. Garcia Sierra:

- "MGE collaborates with approximately 200 community-based organizations, neighborhood associations, service providers, and other entities to expand and extend the Company's ability to serve all of its customers, including low-income customers." (Rebuttal-MGE-Garcia Sierra-2.)

- The organizations include: "Project Home, Energy Services Inc. (ESI), NewBridge, Centro Hispano of Dane County, Goodman Community Center, Kujichagulia Center for Self-Determination Annual Juneteenth Celebration, African Association of Madison Annual Africa Fest, Madison Area Chinese Community Organization, and Monona Eco-Action Tuesdays." (Rebuttal-MGE-Garcia Sierra-2-3.)

- Examples of MGE's community engagement efforts including MGE's partnership with the KajSiab House and Hmong Clan leaders, MGE's partnership with Centro Hispano of Dane County, and working with different customer groups, including renters, older adults, and sustainability-minded customers. (Rebuttal-MGE-Garcia Sierra-4-6.)

Mr. Garcia Sierra further testified:

> MGE continually partners with organizations designed to focus on helping low-income customers. In 2017 and 2018, MGE partnered with several organizations, including ESI, Focus on Energy, Kennedy Heights, Packer Townhomes, NewBridge, Madison College, Boys & Girls Clubs of Dane County, S.S. Morris Community AME Church, and Aldo Leopold Elementary School to bring information and resources to customers in Madison neighborhoods. Workshops were designed with consideration given to customers' culture and language. *By removing accessibility barriers, this collaboration resulted in MGE conducting 22 engagements across three targeted zip codes (53704, 53711, and 53713) serving about 1,100 customers, who also received an energy-saving kit from Focus on Energy. Moreover, these workshops resulted in more than 300 families applying for energy assistance*. MGE's partnership with community schools, such Aldo Leopold Elementary School and Mendota Elementary, allows MGE to provide energy efficiency information and resources to a diverse group of families, many of whom are low income. MGE participates in school-related activities to build relationships with families and school staff by providing workshops and presentations for families to learn how to better manage their energy usage and costs as well as providing access to energy assistance resources.

(Rebuttal-MGE-Garcia Sierra-7-8 (emphasis added).)

While MGE is always working to improve its practices, the Company maintains that its engagements with customers are beneficial, and the data backs that up. MGE takes great steps to avoid disconnecting customers, going above and beyond what is required by the Wisconsin Administrative Code. (Rebuttal-MGE-Forer-2-3, 7.) Pursuant to an exhibit sponsored by BPSA, over the past twelve months, MGE issued approximately 7,400 disconnection notices, but only 1,239 resulted in the customer being disconnected. (Rebuttal-MGE-Forer-9; Ex.-BPSA-Colton-

11.) "That is, over 83% of the time, arrangements on arrears or other situations occurred to stop the customer form being disconnected." (Rebuttal-MGE-Forer-9.) Mr. Forer further testified:

> Considering that number against the number of estimated low-income customers (14,197) from MGE's Annual Report and referenced by Mr. Colton in Direct-BPSA-Colton-35, and assuming that all of those customers disconnected were from the low-income population, which I do not believe to be the case, that would mean that at most, less than 9% of low income customers had been disconnected for non-payment in the last 12 months. This speaks highly both of MGE's commitment to work with all customers, and also the ability of many low-income customers to pay their utility bill.
>
> Further, a customer's balance is not written off until after a customer discontinues service with MGE (bankruptcy and other legal actions being the rare exception). When considering this with a 2022 net write-off of $3,385,124 (Both Residential and Commercial) as shown in Ex.-MGE-Application: MGE Initial Data Request No. 39 – Uncollectibles, but an average Total 2022 Residential arrears of $9,600,259 (Ex.-MGE-Forer-4), this shows that less than one-third of residential arrears will result in bad debt. Based on the above, I am confident that MGE's collections activities are effective. Mr. Colton appears to acknowledge this is a reasonable conclusion during his testimony in Direct-BPSA-Colton-134-135.

(Rebuttal-MGE-Forer-9.)

Notwithstanding the data that supports MGE's efforts, the Company is always looking to improve its existing practices, or create new practices, to help ensure that services are affordable to its customers.

IV. ELECTRIC SERVICE: MGE'S RATE DESIGN AND NEW OFFERINGS ARE REASONABLE AND SHOULD BE APPROVED BY THE COMMISSION.

MGE, Commission staff, and the intervening parties all agree that the Commission will consider a range of electric cost of service studies. Further, there are minimal differences in the rate designs proposed by MGE and Commission staff from an allocation perspective. Thus, MGE will focus on the new tariff offerings and other tariff changes it is proposing in this proceeding.

A. *Net-Metering: MGE's proposed transition to existing Schedule Pg-1 or new Schedule Pg-HE from Schedule Pg-2.*

MGE is proposing a number of changes and transitions related to its parallel generation tariffs. MGE is **not** proposing to end net-metering as asserted by some intervening parties and public commenters. Rather, MGE is proposing a transition that continues to encourage and incent customer-owned solar arrays while also balancing the interests of all other customers. With its proposal, MGE has balanced the interests of existing customers who have solar arrays, customers who may be considering the installation of solar arrays in the near future, and customers who do not have solar arrays.[3] Because MGE's proposal seeks to balance the interests of *all* customers, rather than to benefit a small percentage of them as preferred by some intervening parties, the Commission should approve MGE's proposed transition.

(1) Existing Parallel Generation Tariffs.

MGE currently has two parallel generation tariffs: Schedule Pg-1 (Parallel Generation) and Schedule Pg-2: Net Metering. (Direct-MGE-Penington-9-10; Ex.-MGE-Penington-2, Schedule 2; Ex.-MGE-Penington-25.)

Schedule Pg-2 is a net-metering tariff option available to MGE customers with interconnected generation sized up to 100 kW-AC. This is the current service option typically used for residential and small business customers that have interconnected a solar array behind the utility meter. Under Schedule Pg-2, generally for customers, all generation and consumption nets for the billing month at the same per-kilowatt-hour (kWh) rate, utilizing the MGE system as a virtual bank or battery. MGE records the excess energy out-flowing from the customer as a kWh sale, which is recorded as a purchase power energy fuel cost for all other MGE customers

[3] In certain instances, this brief refers to MGE customers who do not have solar arrays as "non-participating customers."

to pay (that is, MGE customers who do not have solar arrays). As more customers have installed solar arrays in recent years, this fuel expense for MGE's other customers has grown rapidly. In 2022, the cost was $1,576,156 at an effective purchase power expense of $148/Mwh from approximately 2,100 customers. The costs for the excess energy sold to MGE is modestly forecasted to be $2.1 million in Test Year 2024. (Direct-MGE-Penington-9.)

Schedule Pg-1 is an instantaneous netting tariff that remains unchanged and will continue to be available to eligible customers. Schedule Pg-1 is priced differently than Schedule Pg-2. In Docket No. 05-EI-157, the Commission started the process of reviewing how Wisconsin investor-owned utilities should value energy purchases from customer generation. Subsequently, in Docket No. 3270-TE-114, the Commission applied the principles learned in Docket No. 05-EI-157 to MGE's tariffs, resulting in the excess solar energy under Schedule Pg-1 being compensated at approximately $75/Mwh, which is significantly lower than the $148/Mwh average compensation paid under Schedule Pg-2. In other words, MGE's non-solar customers are paying twice as much, or close to a $1 million premium for this energy, and the premium cost to MGE's non-solar customers is growing rapidly. (Direct-MGE-Penington-10; Rebuttal-MGE-Penington-r-4.)

(2) MGE's Proposal to Transition from Schedule Pg-2.

MGE's transition proposal contains the following components:

1. Grandfather existing Schedule Pg-2 customers. A twenty-year grandfather period has been suggested, which MGE does not oppose. Further, MGE also does not oppose adding other standards to Schedule Pg-2 to help clarify the grandfathering concept and how, if at all, it would be impacted by modifications to a customer's existing system. (Rebuttal-MGE-Penington-r-6-7.)

2. Allow new customers to still sign up for service under Schedule Pg-2 per the following schedule, which schedule includes the suggestions identified by Commission staff: (a) interconnection applications received on or before September 1, 2024, will continue to qualify for service under Schedule Pg-2; and (b) for applications received on or before September 1, 2024, the installation and interconnection must be completed on or before December 31, 2025 to qualify for service under Schedule Pg-2. (Direct-MGE-Penington-11; Rebuttal-MGE-Penington-r-3.)

3. For customers who are not grandfathered and for customers who do not satisfy the interconnection criteria in paragraph 2 immediately above, the customers can take service under Schedule Pg-1. (*Id*.)

4. Create a new Schedule Pg-HE to be available to customers effective September 1, 2024. Schedule Pg-HE would be a new hourly inflow-outflow tariff for small customers. As Schedule Pg-2 is closed to new customers, Schedule Pg-HE would become available for customer enrollment. It would be an alternative to taking service under Schedule Pg-1. The hourly netting of Schedule Pg-HE is designed to be responsive to the concerns expressed with transitioning small customers to Schedule Pg-1. The proposed Schedule Pg-HE tariff is in Ex.-MGE-Penington-10. A revised redline of the Schedule Pg-2 tariff to reflect the alternative transition to Schedule Pg-HE can be found in Ex.-MGE-Penington-11. (Rebuttal-MGE-Penington-r-4.)

   Moreover, the Commission could also consider incorporating a cost per kWh adder specific to Schedule Pg-HE designed to temper the impacts of this transition on future solar installations, and still enable substantial savings for MGE's non-solar customers. This balanced approach could be used in place of, or in combination with, other upfront incentives described below (*i.e.*, SIP and SIP-2). For example, MGE suggested an Outflow Transition Adder of $0.05 per kWh that could replace the upfront SIP incentive. This would effectively improve the payback period. This adder is not currently in the proposed tariff language, but MGE could work with Commission staff to incorporate the concept, if approved by the Commission. (Rebuttal-MGE-Penington-r-12.)

5. Create a Solar Incentive Provision (SIP). For new installations under Schedule Pg-HE that previously would have qualified for Schedule Pg-2, provide a SIP for eligible customers. Under the SIP, MGE would provide a $200 credit per kW-AC for a customer solar installation upon completion of the interconnect process. The credit would be capped at a maximum 5 kW-AC for an individual customer and with a maximum of 400 customers per year. (Direct-MGE-Penington-12.)

6. Create, as a pilot program, the Solar Incentive Provision-2 (SIP-2). As part of the transition to Schedule Pg-HE, MGE is proposing a supplemental experimental pilot (Solar Incentive Provision-2 or SIP-2) that would provide additional assistance for income-qualified households, such as customers that have received or qualified for LIHEAP assistance in the last 36 months. This would work in the same way as the proposed SIP; however, MGE is proposing an additional $200/kW or $400/kW for income qualified customers. This doubles the benefits from the proposed SIP, providing $2,000 in upfront incentives for a 5 kW array. The Company is also proposing to adjust the existing SIP program so that the

customer cap will not apply for customers qualifying for SIP-2. A revised Solar Incentive Provision tariff is attached in Ex.-MGE-Penington-12. (Rebuttal-MGE-Penington-r-8-9.)

(3) <u>MGE's Reasoning for the Proposed Transition</u>.

MGE believes that its proposals are the right proposals at the right time. The proposals are transparent and well-reasoned. The proposals incent customers to use their own generation and provides cost protection for non-participating customers.

First, MGE's proposal allows the Commission to determine the amount of subsidization or incentive provided to customers who install solar. This is accomplished through the SIP and the Outflow Transition Adder in Schedule Pg-HE, which would be set the Commission and provide transparency for the incentive. As stated by MGE witness Brian E. Penington:

> Subsidies are inherent in the existing rate structure. However, today they are hidden subsidies that are difficult for the Commission to manage. MGE believes these incentives must be transparent to [*sic*, the] all parties: solar customers, solar installers and trade associations, non-participating customers and most importantly, the Commission. That is what the structure of MGE's proposal does. It puts the value of the incentives in the Commission's hands so that it can adjust the incentives as necessary as everyone, collectively, navigates toward a zero carbon future. Keeping the incentive hidden in the current net metering scheme does not allow the Commission to adjust and even fine tune over time.

(Rebuttal-MGE-Penington-r-30.)

Second, MGE maintains that the transition is consistent with the Commission's decisions in Dockets 3270-TE-114 and Docket 05-EI-157. The Commission initiated a thorough review of the treatment of avoided costs in parallel generation tariffs. MGE continues to remain aligned with the Commission decisions in the forementioned dockets and believes customers will benefit from the clarity of having one price associated with excess production sales to non-participating customers. (Rebuttal-MGE-Penington-r-17.)

Third, costs for MGE's non-solar customers are on the rise. As stated by Mr. Penington, "It is more expensive for MGE's customers to purchase excess energy from a solar array under Rate Schedule Pg-2 as compared to purchasing excess energy from a solar array under Rate Schedule Pg-1. . . . [T]he excess solar energy under Rate Schedule Pg-1 is compensated at approximately $75/Mwh, which is significantly lower than the $148/Mwh average compensation paid under Rate Schedule Pg-2. In other words, other MGE customers are paying twice as much, or close to a $1 million premium for this energy, and the premium cost to MGE's other customers is growing rapidly." (Direct-MGE-Penington-9-10.) Stated differently, the existing Schedule Pg-2 tariff benefits solar installers and owners to the detriment of non-participating customers. (Rebuttal-MGE-Penington-r-6.) This premium will only continue to grow; expected payment under the existing Schedule Pg-2 would be similar to 20-year fixed rate at $240/mWh for the next 20 years. (Rebuttal-MGE-Penington-r-25.)

Fourth, as noted by Dane County witness Kathy Kuntz, the current net-metering policy is regressive. Dane County identified that "only 35% of households installing solar have household annual incomes of less than $100,000. This compares to Dane County's median area income of $78,452." (Direct-DC-Kuntz-22.) MGE is hopeful that an upfront incentive like the SIP-2 proposal may be able to help with this issue.

Fifth, if the Commission approves MGE's transition, the new tariff incentivize alternatives will assist with the transition from Schedule Pg-2. MGE's proposal includes upfront incentives (Solar Incentive Program, Schedule SIP-1, for $200/kW, up to $1,000) and an additional incentive specific to income-qualified customers (Schedule SIP-2, for an additional $200/kW, or up to $2,000 in total).

Sixth, customers will continue to retain their renewable attributions associated with the customer-owned generation. This allows the customer to continue to plan for their individual renewable goals while fairly balancing the buyback rates for non-participating customers. (MGE-Rebuttal-Penington-r-20.)

Finally, to the extent statewide consistency may be of importance, Schedule Pg-HE was drafted with a 20 kW limitation and would include an Outflow Transition Adder (if approved by the Commission). "Since filing direct testimony, MGE is aware that the neighboring utility WPL has proposed an inflow-outflow tariff in Docket 6680-UR-124; MGE believes that realigning our proposal to an hourly inflow-outflow tariff structure can support further standardization that has been requested in Wisconsin." (Rebuttal-MGE-Penington-r-4.)

B. *Proposed Energy Customer Assistance Program.*

MGE is proposing a pilot Energy Customer Assistance Program (ECAP) for qualified residential customers. The program is for eligible residential electric and natural gas customers that receive benefits through the Keep Wisconsin Warm/Cool Fund (KWWCF) to participate in energy efficiency programs and receive incentives including a $72 per year bill credit. (Direct-MGE-Penington-6; Direct-PSC-Clark-r-5.)

As stated by Commission staff witness Chassitti Clark:

> Customers who receive KWWCF benefits are automatically enrolled; MGE plans to reach out to customers who may be eligible even if they are not already enrolled. While most customer assistance programs align program eligibility with customers that have received Energy Assistance through LIHEAP, the ECAP aligns program eligibility with customers that receive KWWCF. This distinction is important as LIHEAP is available to customers up to 60 percent of the state median income guidelines, while KWWCF is available to customers up to 80 percent of the state median income guidelines. The applicant states that this expanded availability is designed to reach those customers that would not typically be eligible for this type of program but still have average energy burdens over double that of the average MGE customer.

(Direct-PSC-Clark-r-5-6.)

Also as noted by Ms. Clark, MGE's proposed pilot program is similar to a pilot program approved by the Commission in 2022 for the Madison Water Utility. "Similar to MWU's CAP, MGE customers who are enrolled in the ECAP will receive a bill offset each month." (Direct-PSC-Clark-r-6.) While the pilot program has been criticized by some of the intervening parties, it is, at minimum, a step in the right direction and should be approved by the Commission.

C. *Electric Vehicle Charging Updates.*

MGE is proposing updates for its Electric Vehicle Public Charging Experimental Pilot Tariff (Rate Schedule EV-2) and proposing administrative updates to Rate Schedule EV-3.

For Rate Schedule EV-2, MGE proposes to shift from a time-based rate to a per-kilowatt-hour rate structure. MGE believes this change is necessary to keep up with technological advancements. (Direct-MGE-Penington-18.) "Because the MGE public charging tariff has been based on the time spent charging instead of the energy delivered, newer and often more expensive models are able to take advantage of the existing billing structure. The updated energy-based EV-2 rate will better reflect the costs and benefits of the energy being delivered from the charger to the EV and thereby reduce cost inequities among customers." (*Id.*) The proposed updated tariff sheets for Rate Schedule EV-2 and supporting analysis is contained in Ex.-MGE-Penington-9, Schedules 1 and 2.

MGE witness Erinn Monroe-Nye addressed comments from Commission staff and intervening parties on the Company's proposed change. First, Ms. Monroe-Nye noted that "MGE's proposal to change its EV-2 rate is intended to provide more equitable access to the public charging network, to support the electrification goals of the communities in which MGE provides electric service, and to make prudent investments that benefit all customers." (Rebuttal-MGE-Monroe-Nye-2.) Ms. Monroe-Nye agreed with Commission staff witness

Andrew Eiter that the Company, if required to do so by the Commission, could implement alternative meter accuracy and testing standards for newly installed chargers going forward. (Rebuttal-MGE-Monroe-Nye-5.) Ms. Monroe-Nye also agreed with City of Madison witness Jessica Price, who asked that terminology with the tariff be modified. (*Id.*)

Ms. Monroe-Nye, however, disagrees with criticisms levied by RENEW Wisconsin, Inc. witness Francisco Sayu. MGE believes that the proposed changes to Rate Schedule EV-2 will help spur the growth of EV charging stations by other entities, and not act as a barrier. Further, the proposed changes Rate Schedule EV-2 are not anticompetitive, as alleged by Mr. Sayu. Indeed, using an example provided by Mr. Sayu, Ms. Monroe-Nye demonstrated that "under MGE's proposed new tariff, a driver would pay more under the new tariff than under Mr. Sayu's example, hardly giving MGE a competitive advantage." (Rebuttal-MGE-Monroe-Nye-6.)

For Rate Schedule EV-3, MGE is proposing administrative modifications to the tariff, including changes to enable greater flexibility with incentives paid under the program. Specifically, one proposed change is to remove references to Venmo and PayPal so as to offer greater flexibility for payment methods. The proposed changes to the tariff are identified in Ex.-MGE-Penington-9, Schedule 3. (Direct-MGE-Penington-21.)

D. *Modifications to Schedule Sp-3.*

MGE is proposing changes to Schedule Sp-3 to improve the tariff. Specifically, the proposed changes better reflect the recovery of MGE's costs to serve the chillers at the West Campus Cogeneration Facility. The proposed changes also simplify and improve clarity in MGE's most complex retail schedule. (Rebuttal-MGE-Denu-16.) The proposed changes are reflected in Ex.-MGE-Denu-6. The changes were reviewed and approved by the University of Wisconsin-Madison. (Surrebuttal-UW-Hanson-1-2.)

E. *MGE's Renewable Flat Bill pilot expansion.*

MGE is proposing changes to its renewable flat bill pilot program, which was originally approved by the Commission for thirty customers. MGE's initial marketing efforts achieved 18 participants, and initial customer satisfaction surveys and re-enrollment suggest a positive customer reception and experience. It is not practical, though, to develop marketing for such a small pool of customers and expect to have statistically sounds results for further program development. MGE requests that the pilot availability be expanded to 200 customers. The proposed tariff changes can be found in Ex.-23 MGE-Penington-5, Schedule 1. (Direct-MGE-Penington-15.) The Citizens Utility Board supports the expansion. (Direct-CUB-Singletary-r-35.)

F. *Adjustments to the MGE Connect® program.*

MGE is proposing adjustments to the MGE Connect® program to realign availability and incentive payments, expand availability to Cg-5 customers, and identify additional options for income-qualified customers. The proposed updates also introduce a rate structure for a controlled water-heating option. The proposed changes are reflected in Ex.-MGE-Penington-4. (Direct-MGE-Penington-14-15.)

G. *Updates to Streetlighting tariff to an LED-only standard.*

MGE is proposing an update to the Streetlighting tariff to reflect MGE's transition to LED-only lighting as the Company standard. Customers will continue to have options to own and maintain their own non-LED fixtures, although MGE is not aware of any requests for non-LED lighting from the municipalities it serves. The proposed tariff changes can be found in Ex.-MGE-Penington-6, Schedule 1. (Direct-MGE-Penington-16.)

H. *Backup Generation Service Rider update (Schedule BGS) – pricing update.*

MGE is proposing a 3.2% increase to the current firm demand rate for its Backup Generation Service Rider (Schedule BGS). Under the proposal, the current rate of $0.09863 per kW per day would increase to $0.10179 per kW per day for all new contracts and any renewals of existing contracts. This change is primarily due to an increase in total capital and operating and maintenance costs offset by an increase in the value MISO assigned to the generation capacity in the Schedule BGS program. Additional support for this adjustment can be found in Ex.-MGE-Penington-7, Schedule 1. (Direct-MGE-Penington-16.)

I. *Green Power Tomorrow – additional pricing option*.

MGE currently offers two tariffs (Rate Schedule RWE-1, Residential Renewable Energy Program, and Rate Schedule BWE-1, Business Renewable Energy Program) that are marketed as the Green Power Tomorrow (GPT) program. Customers have two GPT service options: (1) pay for a fixed kWh amount or (2) pay based on a fixed percentage of their kWh usage. In this proceeding, MGE proposes to add a third customer option. This new option would automatically tailor a customer's percentage participation to account for the percentage of MGE's energy portfolio that is served by renewable resources. Proposed Rate Schedule RWE-1 and Rate Schedule BWE-1 updates associated with this program are found in Ex.-MGE-Penington-8, Schedules 1 and 2, respectively. (Direct-MGE-Penington-17.)

V. NATURAL GAS SERVICE: MGE'S RATE DESIGN AND TARIFF PROPOSALS ARE REASONABLE AND SHOULD BE APPROVED BY THE COMMISSION.

Similar to electric service, MGE, Commission staff, and the intervening parties all agree that the Commission will consider a range of natural gas cost of service studies. Further, with one exception, there are minimal differences in the rate designs proposed by MGE and Commission staff. The one difference is the customer charge.

Commission staff is proposing to decrease MGE's residential fixed charge from $21.88 per month to $18.00 per month. (Direct-PSC-Eiter-s-9.) The adjustment to fixed charges results in a 27% increase in the distribution rates for residential customers when compared with MGE's proposed rate design. (Rebuttal-MGE-Minor-s-1-2.) MGE respectfully opposes the decrease in its residential and small commercial customer charges. As stated by MGE witness Timm A. Minor:

> The Company also believes Mr. Eiter's proposal may place an additional cost burden on residential customers during the heating season months November through March. As an example, average volumetric costs would have been $42 higher during the 2019 heating season when Wisconsin was exposed to the arctic polar vortex weather event. This $42 would have been in addition to the higher prices being paid for natural gas that typically spike during such cold weather events. The Company feels it makes more sense to temper the heating season impact by leaving the customer charges unchanged and believes customers already have an incentive to conserve during the heating season. Similar arguments support leaving the small commercial customer charges unchanged.

(Rebuttal-MGE-Minor-s-2.)

With respect to natural gas tariff changes, MGE is proposing two. First, MGE is proposing a new voluntary Renewable Natural Gas service option (Renewable Natural Gas pilot (Schedule RNG-1)) for customers seeking to decrease their carbon footprint. An increasing number of MGE natural gas customers have expressed an interest in procuring gas that is derived from organic waste streams. MGE's proposal is as a natural gas service rider and will not otherwise impact the costs for service under any other natural gas tariff. The proposed tariff is in Ex.-MGE-Penington-3, Schedule 1. (Direct-MGE-Penington-13.) Second, MGE is proposing to close its GSD-3D pilot program. In Docket 3270-UR-122, as part of a settlement agreement, MGE's demand-based natural gas tariff was approved as a pilot program for qualifying customers interested in a demand-based rate structure. Despite several attempts to market the pilot to qualifying customers, MGE does not have a single customer subscribing to the GSD-3D tariff. Thus, MGE would like to close the GSD-3D pilot as a service offering. (Direct-MGE-Minor-r-20.)

CONCLUSION

For the foregoing reasons, MGE respectfully requests that the Public Service Commission of Wisconsin approve the Company's application for authority to change its electric and natural gas rates.

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